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SUBJECT: UAE INVESTMENT CLIMATE STATEMENT 2006

A.1 Openness to Foreign Investment

The U.S. and UAE began negotiating a Free Trade Agreement in March 2005 and are meeting in February 2007 to discuss next steps on the FTA and the U.S.-UAE trade and investment relationship. The UAE is also involved in GCC negotiations with the European Union and China for free trade agreements. In October 2006, the UAE Minister of Economy stated that the GCC negotiations with China reached an advanced stage on the issue of trade commodities but there are obstacles, especially in the areas of satellite communications.

Investment laws and regulations are evolving in the UAE and are expected to become more conducive to foreign investment. At present, the regulatory and legal framework favors local over foreign investors. There is no national treatment for investors in the UAE, and foreign ownership of land and stocks is restricted. The Emirates of Dubai and Abu Dhabi have opened up some areas for freehold and leasehold property investments, respectively.

The UAE government is opening up its trade sectors in line with its WTO obligations. The UAEG already has taken steps to cut red tape for foreign investors, and now exempts investors from obtaining a Ministry of Labor card in addition to an Immigration Department visa. Investors no longer need to appear in person to inquire about the status of business applications in Abu Dhabi. A new automated service, offered in Arabic and English,

allows investors to receive information about their business licenses over the phone. The Embassy is aware of a few investment/payment disputes between U.S. companies and UAE entities.

The UAEG accession to the UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards became effective in November, 2006. An arbitration award issued in the UAE will now be enforceable in all 138 states that have acceded to the Convention, and any award issued in another member state will be directly enforceable in the UAE. The Convention supersedes all incompatible legislation and rulings in the UAE, and should be welcomed by many businesses that consider arbitration the most advantageous form of dispute resolution.

There is no income tax in the UAE. Foreign banks pay 20 percent tax on their profits. Foreign oil companies with equity in concessions pay taxes and royalties on their proceeds. There are no consumption taxes, and the GCC states formally implemented a single import tariff of 5 percent on most goods January 1, 2003. The exceptions to the 5 percent tariff in the UAE are a fifty percent tariff for alcohol, a one hundred percent tariff for tobacco, and duty exemptions for 53 food and agricultural items. Dubai imposes a rental tax on expatriates equaling five percent of the rental charges. The UAE has said that it is considering passing a VAT averaging 7-12% on the federal level and has asked for assistance from the IMF. The import tariffs are collected and retained by each Emirate.

Regulation of the establishment and conduct of business in the UAE is shared at the federal and emirate levels. There are four major laws affecting foreign investment in the UAE; the Federal Companies Law, the Commercial Agencies Law, the Federal Industry Law, and the Government Tenders Law. These laws, especially the Federal Companies Law, are seen as the largest obstacles to foreign direct investment in the UAE.

The Federal Companies Law applies to all commercial companies established in the UAE and to branch offices of foreign companies operating in the UAE. Companies established in the UAE are required to have a minimum of 51 percent UAE national ownership. However, profits may be apportioned differently. Branch offices of foreign companies are required to have a national agent unless the foreign company has established its office pursuant to an agreement with the federal or an emirate government. All general partnership interest must be owned by UAE nationals. Foreign shareholders may hold up to a 49 percent interest in limited liability companies. Press reports have indicated that the UAEG may reduce the percentage of local ownership required in certain sectors, but has yet to pass a formal law to that effect. On April 2006, the UAE Cabinet amended the law regarding ownership of insurance companies. The amended article states that 75 percent of insurance companies must be owned by a UAE national or 100 percent by UAE national legal persons, i.e., a UAE corporation.

The Commercial Agencies Law requires that foreign principals distribute their products in the UAE only through exclusive commercial agents that are either UAE nationals or companies wholly owned by UAE nationals. The foreign principal can appoint one agent for the entire UAE or for a particular emirate or group of emirates. On June 18, 2006, the UAE announced substantial changes to the Commercial Agencies Law. These amendments include: 1) requiring mutual consent to renew an agency agreement, 2) limiting an agency contract to a fixed time period, 3) allowing either party to file for damages, 4) eliminating the Ministry of Economy's Commercial Agencies Commission(which handles agency disputes), and 5) allowing the import of "liberalized

goods" without the agent's approval.

The Federal Industry Law stipulates that industrial projects must have 51 percent UAE national ownership. The law also requires that projects either be managed by a UAE national or have a board of directors with a majority of UAE nationals. Exemptions from the law are provided for projects related to extraction and refining of oil, natural gas, and other raw materials. Additionally, projects with a small capital investment or special projects governed by special laws or agreements are exempt from the industry law.

The Government Tenders Law stipulates that a supplier, contractor, or tenderer with respect to federal projects must either be a UAE national or a company in which UAE nationals own at least 51 percent of the share capital or foreign entities represented by a UAE distributor or agent. Foreign companies wishing to bid for a federal project must, therefore, enter into a joint venture or agency arrangement with a UAE national or company. Federal tenders must accompany a bid bond in the form of an unconditional bank bond guarantee for 5 percent of the value of the bid. If goods and services are not available locally then UAE federal government entities often tender internationally.

The UAE restricts foreign ownership of land, with rules varying from Emirate to Emirate. In May 2002, the Emirate of Dubai announced that it would permit so-called ree hold eal estate ownership for non-GCC nationals by giving permission to three companies to develop and sell freehold properties on government-designated pieces of land. The Emirate of Dubai codified its freehold and leasehold law on March 14, 2006. The law allows non-GCC foreigners to freehold or leasehold rights only in designated areas of Dubai and does not give property owners permanent residence visas or an automatic right to work in the Emirate. The Emirate of Ras Al Khaimah also offers free-hold land to offshore companies in designated areas. Individuals can establish a company in the Ras-al-Khaima Free Zone for the purpose of purchasing a free-hold for use by the company's owner. However, because specific laws regarding "freehold" ownership remain to be codified and procedures for title documentation and conveyance remain to be established, potential buyers are unsure whether they will have an absolute "freehold" title that means the same as it does in Europe or the U.S. In 2005, the Emirate of Abu Dhabi announced that it would also allow "lease hold" real estate ownership for non-UAE nationals in certain designated areas. The law was published in the Abu Dhabi Gazette in September 2005. Non-GCC nationals can own buildings in the Emirate of Abu Dhabi in certain investment areas, but cannot own the land. The law states that non-UAE nationals shall have the right to own surface property, but not the land itself in investment areas. Foreigners shall have the right to arrange all their surface properties and to derive benefits from them based on a 50-year surface ownership agreement that can be renewed for the same period subject to the agreement of the two parties. The law grants mortgage rights to anyone with the right to benefit from the property for a period of more than ten years, even without the permission of the owner. However, the owner of the property shall not mortgage it unless he gets approval from the person who has the right of benefit of the property.

Perhaps the most important impediment to Dubai "freeholds" is that owners cannot register titles with the Dubai Land Department, a step that allows owners access to the full range of legal protections and transactions that property ownership requires. If a national and foreigner try to register a change of land title, the Land Department normally turns them away. Inheritance laws present another area of concern to freehold buyers, and current legislation appears

ambiguous. "Freeholds" are so new that there are no court precedents yet. Some people are reportedly avoiding this legal ambiguity by purchasing homes through an offshore shell company. Nevertheless, the Dubai Government has promised to resolve these problems and ambiguities in a new land law.

Oil and Gas will continue to be a major sector for foreign investment in 2007. In line with its OPEC quota, the UAE has reduced its oil production output by twice since November 1, 2006. The UAE continues, however, to invest in increasing its oil production capacity and the Emirate of Abu Dhabi recently announced a major plan to develop its sour gas reserves. In addition, the UAE plans to add new oil refining capacity in Abu Dhabi and to build a new refinery in Fujairah. Abu Dhabi Company for Onshore Operations (ADCO) plans to lift production to 1.45 MB/D, Abu Dhabi Marine Operating Company (ADMA-OPCO) to 600,000 B/D and Zakum Development Company (ZADCO) to 600,000 B/D during the next three to five years. As part of the effort to continue to improve output and seek foreign technological and managerial expertise, the state-run Abu Dhabi National Oil Company (ADNOC) signed an Agreement with ExxonMobil for a 28% stake in the Upper Zakum offshore oil field on a 20 year concession in March ¶2006. No regulatory/demand issues affect the market.

We are optimistic that opportunities for foreign investment in the public utilities sector will increase as well. In March 1998 the Abu Dhabi Water and Electricity Authority (ADWEA) awarded a contract for the UAE first independent water and power project (IWPP), with an estimated value of $750 million, to an American firm. The firm was selected as part of an Anglo-American consortium to manage the emirate third IWPP in 2001. The Abu Dhabi government has announced that power generation (includes power and desalinated water production) and transmission will be privatized, while power distribution will remain under the control of Abu Dhabi authorities. The estimated commercial value of planned power and water sector development projects in Abu Dhabi is $5 billion.

In 2004, the UAE enacted legislation to end the monopoly of Etisalat (the official UAE telecommunications company). In May 2005, the UAE approved the establishment of one new telecom company, largely owned by the UAE government to compete with Etisalat. The UAE gave a $1.1 billion license to Emirates Integrated Telecommunication Company (EITC), which operates under the trade name du. Du was expected to start operations in the summer of 2006, but as of January 2007 has yet to begin offering service. Du will offer the full range of telephone services throughout the UAE (mobile, fixed line, internet, etc.) The UAE government owns 40 percent of du. Mubadala Development Company, which is owned by the Emirate of Abu Dhabi, and TECOM Investment, which is owned by the Dubai government through Dubai Holdings each own 20 percent and private investors own the remaining 20 percent. Local press reports throughout 2006, quoted Mohammad Al-Ghanem, Director General of the Telecommunications Regulatory Authority, as saying the duopoly will exist in the telecom sector until 2015 when the market will be further liberalized.

Defense contractors with an eye for investment in the UAE must negotiate directly with the UAE Offsets Group (UOG), and invest an amount that will generate a profit equal to 60 percent of their contract in the UAE. UOG investment projects generally must show the required profit after seven years. The contractor may not own more than 49 percent of the project, and UAE nationals must hold the remaining 51 percent. There are currently more than 30 offset ventures; offset projects cover the full spectrum of economic activity, including, inter alia, advertising, fish farming, air conditioning, language centers, shipbuilding, aircraft maintenance, leasing, medical

services, and even polo grounds. One of the largest offset ventures is the Oasis International leasing company--a British Aerospace offsets venture.

In November 2004, the UAE announced its intent to open up the insurance sector to new foreign insurance companies. Any new companies entering the market are required to meet high level international rating criteria and must complete a viability study to prove that it will be offering new products to the market. About half of the insurance companies in the UAE are foreign, but new entries were frozen since 1999. Currently, there is only one American subsidiary insurance company operating in the UAE.

A.2 Conversion and Transfer Policies

There are no restrictions or delays on the import or export of either the UAE Dirham or foreign currencies by foreigners or UAE nationals, with the exception of Israeli currency and the currencies of those countries subject to United Nations sanctions. The UAEG passed comprehensive anti-money laundering legislation following the attacks of September 11, 2001, that imposes strict documentary requirements on large wire transfers. Travelers entering the UAE must declare currency amounts of more than 40,000 Dirhams (approximately $10,800) as part of these measures.

Since February 2002, the Dirham has been officially fixed to the U.S. Dollar. The exchange rate is 3.67 UAE Dirhams per one U.S. Dollar. Every bank transaction in US dollars is subject to a 1% fee.

A.3 Expropriation and Compensation

Foreign investors have not been involved in any expropriations in the UAE in recent years. There are no set rules governing compensation if expropriations were to occur, and individual emirates probably would treat this differently. In practice, authorities in the UAE would not expropriate unless there was a compelling developmental or public interest need to do so, and in such cases compensation would likely be generous.

A.4 Dispute Settlement

The Embassy is aware of a few substantial investment disputes during the past few years involving U.S. or other foreign investors, and government and/or local businesses. There have also been several contractor/payment disputes, with the government as well as local businesses. Disputes generally are resolved by arbitration, by the parties themselves, or by recourse to the legal system. Dispute resolution can be difficult and uncertain, however. Arbitration may commence by petition to the UAE federal courts on the basis of mutual consent, a written arbitration agreement, independently, by nomination of arbitrators, or through a referral to an appointing authority without recourse to judicial proceedings. Enforcing arbitration judgments rendered in the UAE can be difficult as they require court certification, and judicial proceedings may continue for several years. Some companies are reportedly unwilling to resort to arbitration out of concern that it would affect their future business opportunities in the UAE.

Companies interested in developing large projects in Dubai are routinely required to have investors lined up to finance the project prior to its being awarded to them, and may be required to furnish detailed information about those investors to assure the Dubai emirate government that funding is indeed locked in.

The UAE constitution established a federal court system while acknowledging the right of the individual emirates

to opt out, which Dubai and Ras al-Khaimah both have. However, some issues must be heard in the Federal court system such as security matters, conflicts between the emirates, constitutionality of a federal law, trial of ministers and senior officials and jurisdictional issues. There is no independent judiciary in the UAE. The Ministry of Justice appoints the judges, the majority of which are non-Emirati. Accordingly, each emirate applies federal law in its own court system that consists of courts of first instance, courts of appeal and a Supreme Court. The court of first instance consists of civil, criminal, and Sharia (Islamic law) courts. Sharia law is applicable to both Muslims and non-Muslims and is applicable in all kinds of cases. Courts will interpret statutory law and Sharia law in deciding cases. Commercial disputes involving foreign parties tend to come before the civil courts in the federal system; a panel of three judges ordinarily hears commercial disputes. All cases involving banks and financial institutions are required to be heard by civil courts. In Abu Dhabi, all non-arbitration commercial disputes are first brought to the Abu Dhabi Conciliation Department. If the parties are unable to reach a settlement, they can begin legal proceedings in the court of first instance.

The UAE federal Supreme Court has held that a foreign arbitration clause in a registered commercial agency agreement is unenforceable because the Commercial Agency Law of 1981 states that UAE courts have jurisdiction over commercial agency disputes. However, UAE courts will recognize a decision by both parties to refer a dispute to arbitration. No party in a dispute can file a court claim if such party already has agreed to refer the claim to arbitration. The parties can move for arbitration at any stage during litigation. The UAE Code of Civil Procedure outlines the minimum qualifications that arbitrators must possess as well as many other aspects of the arbitration process. The venue of arbitration is required to be within the UAE, and if not, the resultant award is treated like a foreign judgment. In November 2006, the UAE signed onto the UN Convention for Arbitration, which requires UAE courts to enforce trade dispute arbitration decisions made in foreign countries.

The Code of Civil Procedure contains comprehensive rules in connection with the various types of preventive and provisional remedies prior to litigation and the issuance of judgments, including the attachment of property, confiscation of the defendant passport and prohibitions on travel, as well as the detention of the defendant in certain instances. However, the courts must certify all arbitration decisions, and though they do not review substantive claims, they can invalidate decisions based on procedural considerations. Parties can also appeal certification decisions thus prolonging enforcement indefinitely.

In 1993 the Abu Dhabi Chamber of Commerce and Industry formed the Abu Dhabi Commercial Conciliation and Arbitration Center in an effort to accelerate commercial dispute resolution. The Center has jurisdiction to conciliate or arbitrate commercial disputes. The Center executive regulations govern the conciliation and arbitration procedure. Though referral by the parties to the Dispute Center ostensibly requires them to accept the finality of the Center decision, the courts must still certify the decision and enforcement can be delayed. The Center conducts proceedings in Arabic or any other agreed upon language.

The Dubai Chamber of Commerce and Industry has promulgated similar commercial conciliation and arbitration rules that permit parties to have conciliation or arbitration proceedings under the auspices of the Chamber. In 2004, the Dubai International Arbitration Center was made independent of the Chamber. The Arbitration Center aims to bring international standards of arbitration to business in

Dubai. The UAE is a member of the International Center for the Settlement of Investment Disputes.

A.5 Performance Requirements/Incentives

As listed elsewhere in this report, the regulatory and legal framework in the UAE favors local over foreign investors. There is no national treatment for investors in the UAE. The UAE maintains non-tariff barriers to investment in the form of restrictive agency, sponsorship, and distributorship requirements. In order to do business in the UAE outside one of the free zones, a foreign business in most cases must have a UAE national sponsor, agent or distributor. Once chosen, sponsors, agents, or distributors have exclusive rights. Government tendering is not conducted according to generally accepted international standards, and re-tendering is the norm. To bid on federal projects, a supplier or contractor must be either a UAE national or a company in which UAE nationals own at least 51 percent of the capital or have a local agent or distributor. Federal tenders must be accompanied by a bid bond in the form of an unconditional bank guarantee for 5 percent of the value of the bid. UAE federal government entities can tender internationally since foreign companies sometimes are the only suppliers of specialized goods or services that are not widely available.

Incentives are given to foreign investors in the free zones. Outside the free zones, no incentives are given, although the ability to purchase property as freehold in certain favored projects in Dubai nd promises that foreign owners of such property would be granted residence permits as long as they remained in possession of title ould appear to be incentives aimed at attracting foreign investment.

Visas, residence permits, and work permits are required of all foreigners in the UAE except nationals from GCC countries. Americans are eligible to receive 10-year, multiple entry visas, which authorize stays of up to six months per entry, with the possibility of a six-month extension. U.S. citizens may obtain visas for business and tourism at the airport upon arrival. These visas do not permit employment in the UAE.

A.6 Right to Private Ownership and Establishment
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Except as detailed elsewhere in this report, there are no restrictions on the right of private entities to establish and own business enterprises and engage in all forms of remunerative activity.

A.7 Protection of Property Rights

In September 2005, the Emirate of Abu Dhabi passed a law allowing Emiratis to hold title on properties in the Emirate and opened up some foreign easehold ights to surface property in certain designated areas. Most construction, commercial and residential, is financed by a specialized agency of the government of Abu Dhabi, and commercial banks finance the remainder. Their collateral traditionally has been access to the rent stream of the building or the personal guarantee of the developer.

Foreign and national banks have increased their activity in the mortgage market, expanding their services to foreigners as well as nationals due to the recent boom in freehold property. Foreign banks have entered the market on a smaller scale; the local Mashreq Bank and Dubai Islamic Bank are most heavily involved in new mortgage business, with banks such as Standard Chartered and HSBC providing mortgages on a case-by-case basis to established customers.

The UAE Government continues to lead the region in

protecting intellectual property rights (IPR). Anecdotal and statistical evidence confirms that the UAEG is enforcing copyright, trademark, and patent laws passed in 2002 to protect U.S. intellectual property, and continues to demonstrate its commitment to the 2002 agreement providing TRIPS-plus levels of protection to U.S. pharmaceuticals. Although the UAE is the leader in the region at enforcing intellectual property rights' and the Emirate of Dubai is very pro-active in enforcement, many of the stakeholders believe that the UAEG could do more to fight piracy in the other emirates and to deal with the problems of transshipping of counterfeit goods.

The copyright law, enacted in July 2002, grants protections to authors of creative works and expands the categories of protected works to include computer programs, software, databases, and other digital works. Efforts to combat computer software piracy in the UAE have been successful. According to 2006 industry estimates, the rate of software piracy in the UAE is the lowest in the Middle East, estimated to be 34 percent. The UAE is recognized as the regional leader in fighting computer software piracy. In 2005, the UAE launched several campaigns against piracy and seized thousands of pirated movies and music discs. The UAE Trademark Law, also issued in July 2002, confirms that the UAE will follow the International Classification System and that one trademark can be registered in a number of classes. The new law provides that the owner of the registration shall enjoy exclusive rights to the use of the trademark as registered and can prevent others from using an identical or similar mark on similar, identical or related products and services if it causes confusion among consumers.

In 2004, the UAEG sought to amend and expand the scope of landmark copyright, trademark, and patent laws issued in ¶2002. Most notably, in 2004, the UAE Ministry of Information issued regulations under the 2002 Copyright Law allowing for specialized collecting societies. These societies are a practical way for sound recording companies to collect royalties on the broadcast and performance of copyrighted material. The UAEG also is considering legislation for data protection, privacy, and other IP-related issues. In response to TIFA Council discussions, the UAE identified points of contact for rights holders to address complaints.

A.8 Transparency of the Regulatory System

The fundamental instrument by which all of the emirates regulate business activity is the requirement that any place of business must acquire and maintain a proper license. The procedures for obtaining a license vary from emirate to emirate, but are straightforward and publicly available.

A license is not required unless a place of business is set up in the UAE. In other words, foreign businesses exporting to the UAE but without a regular or continuing business presence in the UAE do not need a license. Licenses available include trade licenses, industrial licenses, service licenses, professional licenses, and construction licenses.

Several federal regulations govern business activities in the UAE outside free trade zones. Activities within the free zones are governed by special bylaws.

A.9 Efficient Capital Markets and Portfolio Investment

The UAE federal commercial code, promulgated in 1993, devotes an entire chapter to bankruptcy he first comprehensive legislation in the UAE on the subject. Monetary judgments in bankruptcy cases are made in the local currency, and UAE courts enforce the judgments of

foreign courts if there is reciprocity based on bilateral or international treaties. In the judgment of western legal experts, the commercial code chapter on bankruptcy governs the procedures and effects of bankruptcy in the UAE, but does not provide a mechanism for the orderly evaluation and distribution of assets of a bankrupt entity.

Credit is allocated on market terms. There are 21 UAE-owned banks with 391 branches, 49 cash offices and electronic/customer services units in the UAE and abroad, 25 foreign banks with 83 branches, once cash office and 6 electronic services/customer service units, one restricted license bank, two investment banks, and 55 representative offices. Following a banking crisis caused by accumulating bad debts after the oil boom in the mid-1980s, the Central Bank stopped giving licenses to new foreign banks. However, in September 2003, the UAE Central Bank announced that it would allow the operation of more banks from other countries on a reciprocal basis. The Central Bank is also considering allowing foreign banks operating in the UAE to set up new branches provided that they undertake to employ UAE nationals. These new branches will allow foreign banks to provide a wider range of banking services. In October 2005, the Central Bank said that national banks conditionally agreed to have new foreign bank branches open in the country.

Citibank is the only U.S. bank in the UAE that offers full banking services. There are a number of U.S. financial institutions with either representative offices in the UAE or that have established a presence in the Dubai International Financial Center (a financial free zone). The largest banks in terms of assets include the National Bank of Abu Dhabi, National Bank of Dubai, Emirates Bank International, Mashreqbank, and Abu Dhabi Commercial Bank.

The Central Bank prohibits lending to an amount greater than 7 percent of a bank capital base to any single customer. Foreign banks with branches in the UAE are not permitted to calculate loans as a percentage of their global capital, which may however be used to calculate in the capital adequacy ratio. In a revision to the rule, the Central Bank in 1993 said it would exclude from the requirement non-funded exposures, such as letters of credit and guarantees. The Central Bank also announced implementation of internationally recognized and accepted accounting principles.

The UAEG implemented a body of anti-money laundering legislation at the end of 2001, which included stringent reporting requirements for wire transfers exceeding $545 and currency importation reporting requirements of amounts exceeding approximately $10,800. The law imposes stiff criminal penalties (jail time and fines) for money laundering and also provides safe harbor provisions for those who report such crimes. Banks and other financial institutions are required to follow strict now your customer uidelines; all financial transactions more than $54,000, regardless of their nature, must be reported to the UAE Central Bank. Banks and other financial institutions supervised by the Central Bank (exchange houses, investment companies, and brokerages) are required to maintain records on all transactions for at least five years.

In 2004, the UAE strengthened its legal authority to combat terrorism and terrorist financing by passing Federal Law Number 1 of 2004 on Combating Terror Crimes on July 29, 2004. (Law No. 1/2004). Law No. 1/2004 specifically criminalizes the funding of terrorist activities or terrorist organizations. Law No. 1/2004 provides for asset seizure and confiscation.

In 2006, the UAE also enacted Law No. 2 of 2006--the Cybercrimes law--which has articles dealing with money

laundering and terrorist finance. Article 19 of the law makes it a crime for anyone to use the internet to transfer money or property traceable to criminal proceeds, or to conceal the true sources of such assets. Violations are punishable by a term of imprisonment of up to 7 years and a fine ranging from $8,174 to $54,495. Article 21 of the law outlaws the use of the internet to finance terrorist activities, promote terrorist ideology, disseminate information on explosives or facilitate contact with terrorist leaders. Any violation of Article 21 is punishable by a term of imprisonment of up to 5 years.

The UAE Central Bank established the Anti-Money Laundering and Suspicious Cases Unit (AMLSCU) in 1998 to perform the functions of a financial intelligence unit (FIU). The AMLSCU jointed the prestigious Egmont Group of FIUs-- the first Arab country to do so-- at the Group June 2002 conference in Monaco. This membership was the basis of a number of Memoranda of Understanding the AMLSCU signed with other countries FIUs in 2002 to facilitate information sharing and case processing. IN 2006, the AMLSCU participated in seminars, consultative meetings, and training with Washington-based agencies, including the Department of Treasury Financial Crimes Enforcement Network (FinCEN). Banks, customs officials, and other relevant personnel are required to file suspicious transaction reports with the unit.

Local banks finance most non-oil investment in the UAE. Even so, banks lack sufficient lending opportunities in the UAE, and consequently place most of their funds in overseas markets. Most of the manufacturing sector operates with higher levels of debt than prescribed by the 60:40 debt-to-equity ratio enerally the norm for this sector. Some three-fourths of gross fixed capital formation in manufacturing is directly or indirectly financed by the banking system.

Abu Dhabi and Dubai each have a stock exchange. 24 out of 50 stocks on the Abu Dhabi stock exchange and 18 out of 33 stocks on the Dubai stock exchange are open to foreign investment. Ministry of Economy and Planning rules allow foreign investment up to 49 percent in companies on the stock market; however, company by-laws in many cases prohibit or limit foreign ownership.

A.10 Political Violence

There have been no instances in recent memory involving politically motivated damage to projects, or insurgencies that have impacted the investment environment.

A.11 Corruption

There is no evidence that corruption of public officials is a systemic problem; however, the former head of Dubai Customs and Port Authority-- along with five other customs officials-- was tried, convicted, and sentenced in April 2001 to 27 years in prison on charges of corruption and embezzlement. He was pardoned four months later by the Dubai government and released. In December 2005, Federal Law No. 34 for 2005 was issued which amended a range of articles in the Penal Code. The law stipulates that a public servant convicted of embezzlement shall be subject to imprisonment for a minimum of five years if the crime is connected to counterfeiting. Article 237 imposes a minimum term of one year for accepting a bribe, while anyone convicted of attempting to bribe a public servant may be imprisoned for up to five years.

American firms are bound by the Foreign Corrupt Practices Act-- a copy of which may be obtained from the Commercial Section of the U.S. Embassy. In August 2005, the UAE signed the UN Anticorruption Convention and ratified it in February 2006

A.11.b Bilateral Investment Agreements

On March 15, 2004, the United States signed a Trade and Investment Framework Agreement (TIFA) with the United Arab Emirates to provide a formal framework for dialogue on economic reform and trade liberalization. TIFAs promote the establishment of legal protection for investors, improvements in intellectual property right protection, more transparent and efficient customs procedures, and greater transparency in government and commercial regulations. Through this process, the United States Government (USG) can identify potential partners for further trade cooperation, such as free trade agreements (FTA).

The United States began negotiating a Free Trade Agreement with the UAE in March 2005 and will meet in February 2007 to discuss next steps on the FTA and the U.S.-UAE trade and investment relationship.

A.11.c OPIC and other Investment Insurance Programs

The UAE has been suspended from U.S. OPIC insurance programs since 1995 because of the UAEG lack of compliance with internationally recognized worker rights standards articularly laborers rights to association and collective bargaining. The ILO reported in April 2003, however, that the UAE had started to address these concerns. The UAE is in the process of drafting a labor law in consultation with the ILO that permits the creation of formal labor associations/unions.

Workers currently address grievances and negotiate disputes of matters of interest with employers through formal and informal mechanisms, including strikes ven though the law does not technically sanction them. UAE law does not allow workers to associate freely for the advancement of common goals and interests, but the UAEG usually does not punish workers' from striking. In 2006 there were several labor strikes mainly because of non-payment of salaries/benefits and the Ministry of Labor often sided with the strikers.

The UAEG prohibits strikes by those employed in the public sector on the grounds of national security considerations. There is continuous coverage in the local press, however, of private sector employees striking in protest of non-payment of wages. Throughout 2006, Ministry of Labor officials investigated and mediated such disputes ften to the benefit of the striking workers.

A.11.d Labor

Population in the UAE is approximately 4.10 million, according to 2000 census results which were released in July, 2006. In December 2005, the UAE began a door-to-door census. Results of the census included both the foreign and local population in the UAE. More than 80 percent of residents are foreigners, and approximately 98 percent of private sector workers in the UAE are non-UAE nationals. Emiratization of the UAE workforce remains a national objective, although mandated hiring of nationals has been limited to only a few sectors, such as banking, which has a 4% quota, insurance, which has a 5% quota and trade, which has a 2% quota for companies employing 50 workers or more as well as quotas in the federal government. In addition, in 2006, the UAEG also added Emiratization requirements that all secretaries and Public Relations Officers must also be Emirati.

The Right to Organize and Bargain Collectively

The law does not specifically grant-- but does not prohibit--workers the right to engage in collective

bargaining. Ministerial resolution No. 307 of 2003 does, however, expressly authorize collective work dispute resolution. In 2006, there were a number of organized gatherings of workers complaining of unpaid wages to the Ministry of Labor. Professional associations may also raise work-related concerns, lobby the UAEG for redress, or file a grievance with the Ministry of Labor. For the resolution of work-related disputes, workers rely on conciliation committees organized by the Ministry of Labor or on special labor courts.

Labor laws do not cover, and therefore do not protect, government employees, domestic servants, agricultural workers or workers in the free zones. Domestic servants face considerable difficulty in negotiating employment contracts because the mandatory requirements contained in the labor law do not apply to them. They also face considerable difficulty in obtaining assistance to resolve disputes with their employers. UAE employers generally tie an employee residency or visa to his employment and sponsorship. If the employee terminates his employment and is unable to secure new employment and a new sponsor, the employee loses residency and could be required to leave the country.

The UAE Government has committed itself to strictly regulating and enforcing labor laws, as witnessed by a recent series of legislation and proposals. In June 2004, the UAE Cabinet of Ministers approved a memo calling for the establishment of labor unions and associations in the UAE. On February 5, 2007, the Ministry of Labor published the proposed new labor law for comment. The proposed law does not contain any provisions for labor unions or for collective bargaining.

Businesses in free trade zones must comply with federal labor laws; however, the Ministry of Labor does not regulate them. Instead, each free trade zone maintains its own labor department to address workers concerns.

Prohibition of Forced or Bonded Labor

Forced or bonded labor is illegal in the UAE. However, some employment agents bring foreign workers to the country under conditions approaching indenture. Some women are brought to the country for service sector employment and later forced into prostitution. The Government prohibits forced and bonded child labor and generally enforces this prohibition effectively.

Starting October 1, 2004, the UAE Ministry of Labor began requiring employers to submit job offers stating the salary and job title of their prospective employees at the same time employers submit visa applications. The former practice was for employers to provide employment details on the visa applications only. This mandate is intended to make employers more accountable when applying for work visas on behalf of their employees and aims to protect the rights of workers, who are sometimes misled by their employers.

Status of Child Labor Practices and Minimum Age for Employment

The labor law prohibits employment of persons under the age of 15 and has special provisions for employing those 15 to 18 years of age. The Federal Ministry of Labor is responsible for enforcing the regulations. Other regulations permit employers to employ only adult foreign workers. The UAEG does not issue work permits for foreign workers under the age of 18 years.
In July 2005, the UAEG passed a decree banning the use of child camel jockeys and included criminal penalties for violators up to and including imprisonment. The ban prohibits the use of camel jockeys less than 18 years of age.

Acceptable Conditions of Work

There are a considerable number of skilled foreign nationals in the country who are employed under favorable working conditions. However, the country is also a destination for a large number of unskilled workers, including more than 200,000 domestic servants, most of them women from South and East Asia, and an even larger number of unskilled male workers, mostly from South Asia. These unskilled laborers actively compete for jobs in the UAE, and some are subject to poor working conditions.

The standard workday is eight hours per day; the standard workweek is six days per week; however, these standards are not enforced strictly. Certain types of workers, notably domestic servants, are required to work longer than the mandated standard. The law also provides for a minimum of 24 days per year of annual leave plus 10 national and religious holidays. There is no legislated or administrative minimum wage; rather, supply and demand determine compensation. Compensation packages generally provide housing or housing allowances. In addition, other benefits, such as homeward passage or health cards for minimal to no-cost health care, are often provided to employees by their employers. The Labor Ministry reviews labor contracts and does not approve any contract that stipulates a clearly unacceptable wage.

The Ministry of Health, Ministry of Labor, municipalities, and civil defense authorities enforce health and safety standards, and the Government requires every large industrial company to employ a certified occupational safety officer. The law requires that employers provide employees with a safe work environment. The UAE issued regulations in summer 2006 that laborers could not be required to work between twelve thirty and three p.m. during July and August and penalized companies that did not comply.

A.11.e Foreign Trade Zones/Free Ports

Free Zones in the UAE are home to more than 5,000 companies with a total investment estimated at more than $4 billion. Presently, 32 free trade zones operate in the UAE, with more in the development stage. Overall, these free zones form a vital component of the local economy, and serve as major re-export centers to the Gulf region.

Since UAE tariffs are low and not levied against many imports, the chief attraction of the free zones is the waiver of the requirement for majority local ownership. In the free zones, foreigners may own up to 100 percent of the equity in an enterprise. All free zones provide 100 percent import and export tax exemption, 100 percent exemption from commercial levies, 100 percent repatriation of capital and profits, multi-year leases, easy access to sea and airports, buildings for lease, energy connections (often at subsidized prices), and assistance in labor recruitment. In addition, the free zone authorities provide significant support services, such as sponsorship, worker housing, dining facilities, recruitment, and security.

By far the largest and most successful of the free zones is the Jebel Ali Free Zone (JAFZA) in Dubai, located 20 km south of Dubai city adjacent to the Jebel Ali Port. Over 5000 companies representing 80 countries have set up shop in the JAFZA, including numerous Fortune 500 firms.

The JAFZA managing authority authorizes three types of licenses: a general license, a specific license, and a national industrial license. The licenses are valid while a company holds a current lease from the free zone authority and are renewable annually as long as the lease is in force. The special license is issued to companies incorporated, or otherwise legally established, within

the free zone or outside the UAE. In such cases, no other license is required, and the ownership of the company may be 100 percent foreign. The license is issued for any activity permitted by the free zone authority, including manufacturing. A company with a special license can only operate in the JAFZA or outside the UAE, but business can be undertaken and sales made in the UAE through or to a company holding a valid Dubai Economic Department license. However, a company with a special license can purchase goods or services from within the UAE.

A variety of innovative free zones in Dubai have been established since 2000, most notably the TECOM (Technology, Electronic Commerce and Media) free zone. TECOM houses both Internet City and Media City, two subdivisions which cater, respectively, to the IT and media sectors. TECOM offers a high bandwidth and state-of-the-art IT infrastructure. Current tenants of TECOM include prominent names such as Oracle, Reuters, CNN, Hewlett Packard and Microsoft. Other Dubai free zones include Dubai Health Care City, specializing in medical products and services, the Mohammed Bin Rashid Technology Park, which aims to promote scientific research and development, and to transfer technology throughout the region and the Dubai Aid City, which hosts local, regional and international relief aid donors, suppliers and organizations. Internet usage in the free zones is not censored as it is in the non-free trade zones.

A.11.f Foreign Direct Investment Statistics

The United Nations Conferences on Trade and Development (UNCTAD) reports that inward FDI flow for the UAE was $12 billion in 2005. Total U.S. foreign direct investment in the UAE was $2.6 billion in 2005.

The Abu Dhabi Chamber of Commerce and Industry notes that the leading sectors for investment in the UAE in 2006 were (in order of magnitude of investment): oil and gas-field machinery and services, power and water, computer/peripherals, medical equipment and supplies, airport development and ground equipment, telecommunications, and franchising.

There are no restrictions or incentives with regard to the export of capital and outward direct investment, and UAE investment abroad is significant. It is conservatively estimated that the Abu Dhabi Investment Authority (ADIA) manages an approximate USD $500 billion in government assets in overseas markets-- mostly in the United States, Europe, and Asia.

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